

United States v. Allied
Prepared Remarks for U.S. Attorney Preet Bharara
November 1, 2011

Good afternoon. My name is Preet Bharara, and I am the United States Attorney for the Southern District of New York.

Based on years of alleged fraudulent lending practices, today we announce a civil lawsuit against a company that has billed itself as the largest privately-held mortgage broker in the country – Allied Home Mortgage Capital Corporation. We have also sued its underwriting arm; its President and CEO, Jim Hodge; and its Executive Vice President and Director of Compliance, Jeanne Stell.

As described in the 41-page Complaint, Allied was a massive engine of mortgage fraud controlled and disguised by CEO Jim Hodge and others who used lies, false documents, and corporate manipulation to play a shell game with HUD.

The victim of this shell game was not only HUD, who has so far had to pony up \$834 million and counting, for insurance on fraudulently issued mortgages and other costs, it was also the American taxpayer whose money was taken to fatten the wallet of Allied and Jim Hodge.

Having insurance stand behind a mortgage program was supposed to help creditworthy low and moderate-income families achieve the dream of home ownership; it was not a license for putting revenue before responsibility.

But, as set forth in the Complaint, Allied and its CEO exploited a government insurance program to engage in a wholesale shifting of risk away from itself – playing a lending industry equivalent of heads-I-win and tails-you-lose. The losers here were American taxpayers and the thousands of families who faced foreclosure because they could not ultimately fulfill their obligations on mortgages that were doomed to fail.

Among other things, Allied allegedly originated loans out of hundreds of “shadow” branches it never disclosed to HUD, submitted knowingly false statements about its operations, hid its accumulating sanctions from local regulators, ran a woefully inadequate quality control program, and concealed its dysfunctional operations.

Allied’s decade of concealed misconduct has resulted in tens of thousands of defaulted loans, thousands of American families facing eviction, and hundreds of millions of dollars in losses to the United States.

Again and again, Allied allegedly told regulators that whatever problems they found were isolated and had been corrected. As a result, Allied continued its business as usual. Today, Allied’s business as usual comes to an end.

Before I go any further, let me introduce and thank the partners standing with us today:

- Helen R. Kanovsky, HUD General Counsel
- Steven Perez, Assistant Special Agent in Charge for the New York region of HUD's Office of the Inspector General and case agent Jennifer Lake

I also thank the Office of Inspector General at the Federal Housing Finance Agency.

I am also joined by members of my Office's Civil Frauds Unit, which oversees our civil fraud investigations, including mortgage fraud investigations like this one, and which is handling this suit: Assistant United States Attorney Jaimie Nawaday, along with the Chief of the Civil Frauds Unit, Heidi Wendel, Deputy Chief Pierre Armand, and paralegals David Farber and Callan Smith. I want to especially acknowledge Andrew Schilling, the chief of our Civil Division, who has done such a tremendous job overseeing all of these cases.

The reason we established the Civil Frauds Unit last year was to bring renewed focus, energy, and resources to combating financial fraud, and this is precisely the type of case we had in mind. Just six months ago, we brought another suit, which is still pending, against Deutsche Bank based on its lending and underwriting practices. And we fully expect to be bringing more cases in the future.

Now, let me go back to describing the allegations against Allied.

In order to understand the nature and significance of the allegations, it is important to understand the Loan Correspondent program, run by HUD, which includes the Federal Housing Administration (FHA).

In a nutshell, here is how it worked:

FHA mortgage insurance makes home ownership possible for millions of American families by protecting lenders against defaults on mortgages. FHA insurance encourages lenders to make loans to creditworthy borrowers who might not otherwise be able to meet conventional underwriting requirements. To assess the risk of default on the loans it insures, however, HUD relies on assurances by approved FHA lenders that they, and the loans they submit for insurance, comply with basic HUD requirements.

As an approved FHA loan correspondent, Allied had the authority to originate loans that would be backed by FHA insurance – in other words, backed by the full faith and credit of the United States government.

But, as part of the bargain, Allied was required to seek HUD approval for each branch office that originated FHA loans. In seeking that approval, Allied was required to submit a certification about its operations at that branch. And to maintain that approval, Allied was also required to certify each year that it met certain quality control standards and was in good standing in each of the states in which it operated.

But, as today's lawsuit alleges, Allied never played by the rules. Instead, it brushed aside the most basic of HUD requirements for lenders. As alleged, Allied's CEO, Jim Hodge, created a culture of corruption, which led to a collapse of lending standards and a pattern of deceiving regulators about Allied's actual business operations.

Its wide-ranging deception is well-documented in the Complaint, which I urge you to read in its entirety. Among other things, Allied:

- failed to disclose that it was operating scores of unapproved shadow branches that were originating mortgages;
- failed to disclose that it employed convicted felons and then lied about that fact;
- failed to disclose that it had been repeatedly sanctioned – by regulators in Rhode Island, South Carolina, Arizona, and Washington state, among others;
- failed to disclose its true default rates to HUD;
- failed to heed serious concerns voiced by lower-level employees; and
- utterly failed to maintain an adequate quality control program, given the volume of loans it was issuing.

In fact, further to this last point, the Complaint alleges that Allied failed to conduct on-site audits of its branches, as required; failed to review 10 percent of all closed-loan files, as required; and failed to conduct reviews of early defaults, as required.

At one point, even with more than 500 branches operating nationwide, Allied had only three – yes, three – quality control employees in its corporate office;

And at some point, in an apparent tax-motivated move, Allied transferred its quality control office offshore, to the island of St. Croix, where it employed a number of people who were so unqualified for the job that some did not know, for example, what a mortgage was. If these allegations are proved, it will mean that Allied's supposed quality control program was nothing more than a joke.

In short, this deceptive behavior allowed Allied continued access to the Government-insured mortgage market and led the Government to foot the bill for thousands of mortgages that were doomed to fail. As I have said, the Government is out \$834 million and counting.

Today's action is a civil lawsuit, but the investigation is continuing, and we will go wherever the facts lead us, as we do in every case.

The FHA mortgage insurance program is a vital program that allows millions of Americans to purchase homes. But this program cannot succeed without the work of qualified lenders who play by the rules.

The Federal Housing Administration is the largest insurer of mortgages in the world. And its market share is only increasing.

Today, the FHA insures one of every three new residential mortgages in America. That's up from just 4 or 5 of every hundred only a few years ago. That means that FHA is becoming a more and more important pillar of the entire housing market.

And that, in turn, means that the type of deceptive conduct described in today's lawsuit cannot be tolerated.

Let me end by reading an email quoted in today's Complaint. It was sent by defendant Stell to another Allied employee in 2009 after HUD issued a negative audit report about a number of Allied branches. Referring to CEO and defendant Jim Hodge, Director of Compliance Jeanne Stell wrote this:

"Jim [Hodge] has to be the biggest target personally for his disregard of the regulations. Serves him right never listening and thinking he didn't have to play by the rules." (Complaint, para 76).

I could not have said it any better myself.